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Review of the efficiency of the administrative and financial functioning of the United Nations

Programme budget for the biennium 2002-2003

Procurement reform

Outsourcing practices

Proposed measures to improve the profitability of commercial activities of the United Nations

Second report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the reports of the Secretary-General on procurement reform (A/57/187), outsourcing practices (A/57/185) and proposed measures to improve the profitability of the commercial activities of the United Nations (A/57/398). During its consideration of the reports, the Committee met with representatives of the Secretary-General, who provided additional information.

Procurement reform

2. The report of the Secretary-General (A/57/187) is submitted pursuant to General Assembly resolution 55/247 of 1 May 2001. The Advisory Committee commends the Secretary-General on the format of the report. However, the Committee is of the view that further improvements could be made. For example, in future, the report should have a brief introduction covering other aspects of procurement reform, including potential problems other than those identified in the Assembly resolution.

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3. The Advisory Committee notes that while the information in the report relates to 2001 and the first half of 2002, the information in annexes I and II to the report does not go beyond 2001. The Committee requests that, in future, the most up-to-date information be included in the report.

4. The statistical data presented in the report of the Secretary-General on the level of procurement from developing countries demonstrates no significant change in favour of vendors from those countries. Moreover, in some cases it shows a real decline. The total increase in procurement from developing countries is limited to host countries of United Nations peacekeeping operations and their neighbours.

5. However, the Advisory Committee notes the efforts of the Secretariat to disseminate information relating to procurement through its web site, letters to permanent missions and business seminars and briefings to increase procurement opportunities for vendors from developing countries.

6. On the issue of the simplification of vendor registration, the Advisory Committee was informed that, while a provisionally registered vendor may participate in the bidding process, the registration process must be completed by that vendor before the award of a contract since contracts are awarded only to vendors listed in the United Nations register. **Nevertheless, the Committee expresses its concern about provisional registration in that it might introduce inequality in the way the companies that wish to be registered with the United Nations are treated. The Committee considers it important that any vendor from any country have an equal opportunity to register and that only fully registered vendors who have received legal and financial background scrutiny be awarded contracts.**

7. During the hearings, the Advisory Committee found that the problem of delays in payments to vendors remains chronic and that delays of two or three months beyond the standard 30 days are still frequent. **The Committee considers it important to remedy the situation.**

8. The additional information provided to the Advisory Committee indicated that the total procurement for 2001 amounted to $854.4 million, out of which $222 million, or 26 per cent, related to air transportation services. The Committee notes that this gross figure is inclusive of a number of purchases of services, such as legal, insurance, travel and medical services contracts, which were incorporated into the statistics for the first time (see note 4 of the report). The Committee was informed that, while air transportation of personnel is still conducted only by certified air operators, brokers are allowed to participate in the air shipment of United Nations cargo. According to the Procurement Division, the services of brokers might be more efficient and less expensive. The Committee was informed that out of $105.3 million spent to move United Nations cargo by air in 2000-2001, brokers provided services worth $8.3 million, or approximately 8 per cent, and the balance of $97 million, or 92 per cent, of cargo airlifts was used for certified air operators. **The Committee cautions that, despite the potential economic advantages of using brokers, the safety of United Nations personnel and the cargo they might be accompanying is of paramount importance, as is full compliance with established safety standards and regulations.**

9. On a related matter, the Advisory Committee stresses the importance of ensuring that the Procurement Manual is consistent with the Financial Regulations and Rules of the United Nations.

Outsourcing practices

10. The report of the Secretary-General (A/57/185) is submitted in compliance with the request made by the General Assembly in paragraph 5 of its resolution 55/232 of 23 December 2000. The Advisory Committee notes from the annex to the report that, while the installation and maintenance of electronic software has been outsourced at United Nations Headquarters because technical skills are not readily available, there is no reference to current practice at the United Nations Office at Geneva, the Office of the United Nations High Commissioner for Refugees and the United Nations Office at Vienna. **The Committee requests that this information be included in the next report.**

11. **The Advisory Committee also requests that, in future, whenever an activity is outsourced for reasons of cost efficiency, the related saving should be indicated.**

Proposed measures to improve the profitability of the commercial activities of the United Nations

12. The report of the Secretary-General (A/57/398) is submitted pursuant to General Assembly resolution 56/238 of 24 December 2001 in which the Secretary-General was requested to submit to the Assembly at its fifty-seventh session a single report containing recommendations related to proposed measures to improve the profitability of commercial activities of the United Nations.

13. The Advisory Committee notes from paragraphs 8 and 9 of the report that, in the light of reports, reviews and initiatives being prepared by the Secretary-General that would have an impact on the overall question of the commercial activities of the Organization, the comprehensive recommendations requested by the General Assembly would be submitted in the context of its consideration of the programme budget for the biennium 2004-2005.